

Message Text

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PAGE 01 STATE 107459
ORIGIN TRSE-00

INFO OCT-01 ARA-10 ISO-00 SP-02 ICA-11 AID-05 EB-08
NSC-05 SS-15 STR-07 OMB-01 CEA-01 CIAE-00 COME-00
FRB-03 INR-10 NSAE-00 XMB-02 OPIC-03 LAB-04
SIL-01 L-03 H-01 PA-01 OIC-02 /096 R

DRAFTED BY TREAS:I/IDN:F.MARESCA
APPROVED BY ARA/ECP:SHROGERS
TREAS:D:R.CARSWELL
TREAS:SE:PSBRIDGES
TREAS:OASIA:ANACHMANOFF
ARA/AND: DKEMP
-----071893 271716Z /43
P 271619Z APR 78
FM SECSTATE WASHDC
TO AMEMBASSY LIMA PRIORITY

C O N F I D E N T I A L STATE 107459

E.O. 11652: N/A

TAGS: EFIN, EAID, PE

SUBJECT: BILATERAL WITH PERU AT IDB MEETING

1. AT THE REQUEST OF PERUVIANS, DEPUTY SECRETARY CARSWELL AND OTHER MEMBERS OF U.S. DELEGATION (NACHMANOFF AND MARESCA OF TREASURY, ARELLANO OF STATE AND U.S. ED AT IDB DUNGAN) MET IN VANCOUVER APRIL 19 WITH CENTRAL BANK PRESIDENT DE LA MELENA, VICE MINISTER OF FINANCE ALCANTARA AND JOSE LUIS BROUSSET, PRESIDENT OF THE BANCO POPULAR. PURPOSE OF MEETING WAS TO SEEK TREASURY VIEWS ON: (A) THE COMPTROLLER OF THE CURRENCY'S CLASSIFICATION OF LOANS TO PERU; (B) PROSPECTS FOR INCREASED U.S. ASSISTANCE INCLUDING ESF SUPPORT (C) INTERVENTION ON PERU'S BEHALF BEFORE THE INTERNATIONAL INSTITUTIONS; AND FINALLY (D) A PROPOSAL TO
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 STATE 107459

EXPAND EXIM PROGRAMS IN PERU.

2. CLASSIFICATION OF LOANS BY COMPTROLLER - CENTRAL BANK PRESIDENT WAS CONCERNED BY INFORMATION SUPPLIED BY COMMERCIAL BANKS BOTH IN LIMA AND IN VANCOUVER THAT THE COMPTROLLER WAS ABOUT TO RECLASSIFY SHORT TERM LOANS TO GOP FROM THE SPECIAL MENTION TO THE SUB-STANDARD CATEGORY. THIS

WOULD BE CATASTROPHIC BECAUSE BANKS WILL CUT OFF LOANS IN AN ATTEMPT TO REDUCE EXPOSURE AT A TIME WHEN PERU IS EXPERIENCING SUBSTANTIAL PROBLEMS IN FINANCING

THE DEFICIT AND MEETING ITS DEBT SERVICE OBLIGATIONS. DEPUTY SECRETARY CARSWELL REPORTED THAT HE DISCUSSED THIS ISSUE LAST WEEK WITH THE COMPTROLLER AND THAT COMPTROLLER KNEW OF NO MOVE TO CHANGE THE CLASSIFICATION OF LOANS TO PERU. THE COMPTROLLER CONSTANTLY MONITORS THE SITUATION AND THERE MIGHT BE CAUSE FOR CONCERN IN THE FUTURE SHOULD THERE BE A DETERIORATION IN THE SITUATION.

3. U.S. ASSISTANCE PROSPECTS - DE LA MELENA POINTED OUT THAT GOP UNDERSTANDS THE IMPORTANCE THE U.S. PLACES ON A FUND PROGRAM. PERU IS STILL IN CONTACT WITH THE FUND AND NEW MEASURES ARE BEING EXPLORED TO BRING PERU INTO CLOSER COMPLIANCE WITH THE FUND AGREEMENT. IN FACT CENTRAL BANK PRESIDENT WILL CONTINUE ON TO WASHINGTON TO DISCUSS SITUATION WITH THE FUND. UNTIL NOW THE GOP HAS BEEN ABLE TO MEET ALL ITS EXTERNAL OBLIGATIONS BUT WITHOUT FURTHER HELP FROM THE U.S. IT WILL BE UNABLE TO CONTINUE TO DO SO BEYOND MID-YEAR. IN ADDITION THE CENTRAL BANK PRESIDENT ANNOUNCED THE GOVERNMENT'S INTENTION TO RESCHEDULE ITS EXTERNAL DEBT AND HOPED THE U.S. WOULD PARTICIPATE IN THE EXERCISE.
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 STATE 107459

IN RESPONSE THE DEPUTY SECRETARY STATED THAT WE ARE INTERESTED IN DOING WHAT WE CAN TO HELP PERU. A LOT WILL DEPEND ON AGREEMENT WITH THE FUND. THE U.S. HAS BEEN LOOKING AT A VARIETY OF ASSISTANCE POSSIBILITIES. OTHER WAYS MAY BE POSSIBLE BUT THE ESF IS PROBABLY NOT POSSIBLE NOW BECAUSE, (1) PERU'S POSITION TODAY DOES NOT MEET OUR REQUIREMENT FOR AN ONGOING FUND STABILIZATION PROGRAM, AND (2) THE ESF, FOR THE FIRST TIME IN MANY YEARS, IS BEING USED TO SUPPORT THE DOLLAR AND WE MUST KEEP IT AVAILABLE FOR THIS PURPOSE. THIS WAS THE REASON FOR SETTING UP THIS FUND IN THE FIRST PLACE. CONGRESS AND OTHER COUNTRIES WOULD FIND IT DIFFICULT TO UNDERSTAND HOW THE U.S., AT THIS TIME, WOULD BE USING THE ESF TO SUPPORT THE CURRENCIES OF OTHER COUNTRIES. THIS DOES NOT MEAN THAT THE U.S. WILL NOT HELP IN OTHER AREAS. THE U.S. HAS INCREASED SUBSTANTIALLY ITS ASSISTANCE TO PERU IN RECENT YEARS AND WE WILL EXPLORE ADDITIONAL WAYS TO BE CONSTRUCTIVE.

4. INTERVENTION WITH FUND - THE VICE MINISTER OF FINANCE WISHED TO MAKE CLEAR THAT PERU WAS PREPARED TO TAKE THE

NECESSARY STABILIZATION MEASURES. THE GOP IS CONCERNED THAT THE FUND IS INSENSITIVE TO THE POLITICAL AND SOCIAL PROBLEMS IN PERU. STABILIZATION MEASURES SHOULD TAKE INTO ACCOUNT MORE DIRECTLY THESE CONCERNS. IF THE

PERFORMANCE TARGETS ARE NOT COMPLETELY MET IT COULD CREATE VERY DIFFICULT PROBLEMS AND DISRUPT THE PROCESS OF RETURNING THE GOVERNMENT TO CIVILIAN RULE. IN THIS RESPECT THE U.S. CAN BE HELPFUL BY SPEAKING TO THE FUND ON PERU'S BEHALF.

THE DEPUTY SECRETARY POINTED OUT THAT THE INTERNATIONAL INSTITUTIONS HAD A DIFFICULT JOB BECAUSE THEY NOT ONLY HAD TO MAKE TECHNICAL JUDGEMENTS BUT ALSO HAD TO CONFIDENTIAL

CONFIDENTIAL

PAGE 04 STATE 107459

CONSIDER THE POLITICAL SITUATION. WHILE THE U.S. WILL CONTINUE TO FOLLOW THE SITUATION CLOSELY IT WAS NOT PROPER FOR US TO DICTATE TO THESE INSTITUTIONS AND SUCH A POLICY WOULD SERIOUSLY DAMAGE THEIR OVERALL EFFECTIVENESS.

5. EXIM LENDING - TWENTY YEARS AGO WHEN PERU WAS IN A SIMILARLY DIFFICULT FINANCIAL POSITION EXIM AUTHORIZED A SPECIAL CREDIT TO FINANCE IMPORTS FROM THE U.S. WHAT THE VICE MINISTER HAD IN MIND WAS EXIM CREDITS FOR INTERMEDIATE PRODUCTS TO HELP GET EXPORT INDUSTRIES MOVING AND INCREASE FOREIGN EXCHANGE EARNINGS.

U.S. DELEGATION POINTED OUT THIS WAS AN ISSUE WHICH EXIM WOULD HAVE TO DECIDE. ANY REQUEST FOR ASSISTANCE, OF COURSE WOULD BE LOOKED AT IN THE CONTEXT OF A PROGRAM WITH THE IMF. THE DEPUTY SECRETARY PROMISED THAT WE WOULD TALK TO EXIM ABOUT THE PERUVIAN PROPOSAL. HE POINTED OUT THAT THE ADMINISTRATION CURRENTLY IS REVIEWING ITS POLICIES ON EXPORT PROMOTION, AND IT IS NOT CLEAR WHETHER EXIM WILL BE WILLING TO TAKE ON A MAJOR NEW PROGRAM TO FUND INTERMEDIATE GOODS IMPORTS.

6. COMMENT: IN LIGHT OF IMPORTANCE OF MEETING IN VANCOUVER, SUGGEST AMBASSADOR REITERATE U.S. POSITION TO GOP BASED ON DETAILS PROVIDED THIS TELEGRAM. VANCE

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FINANCE, MEETING DELEGATIONS, DEVELOPMENT PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 27 apr 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978STATE107459
Document Source: CORE
Document Unique ID: 00
Drafter: I/IDN:F.MARESCA
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D780180-0649
Format: TEL
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t1978049/aaaaahab.tel
Line Count: 162
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 3d01eeb5-c288-dd11-92da-001cc4696bcc
Office: ORIGIN TRSE
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 25 jul 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3066106
Secure: OPEN
Status: NATIVE
Subject: BILATERAL WITH PERU AT IDB MEETING
TAGS: EFIN, EAID, PE, IDB
To: LIMA
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/3d01eeb5-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014